

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lakeland Library Cooperative	County Kent
Fiscal Year End 09/30/2007	Opinion Date January 26, 2008	Date Audit Report Submitted to State February 6, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (616) 975-4100	
Street Address 2330 East Paris Ave. SE		City Grand Rapids	State MI
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM	Zip 49546
		License Number	24801

LAKELAND LIBRARY COOPERATIVE

GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

LAKELAND LIBRARY COOPERATIVE

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

January 26, 2007

To the Board of Directors
Lakeland Library Cooperative
Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities and the general fund of **Lakeland Library Cooperative** as of and for the year ended September 30, 2007, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the general fund of Lakeland Library Cooperative, as of September 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Rehmann Robson

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lakeland Library Cooperative (the "Cooperative"), we offer readers of the Cooperative's financial statements this narrative review and analysis of the financial activities for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

1. Ecommerce software was purchased to allow patrons to pay fines online
2. Consortium Agency Holds software was purchased
3. Edifact Invoicing and Inventory Express were purchased to expedite processing and checkout.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Cooperative's financial statements. The Cooperative's basic financial statements comprise three components:

1. Government-wide statements
2. Fund financial statement, and
3. Notes to the financial statements

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page.

Government-wide Statements

The *statement of net assets* presents information on all of the Cooperative's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Cooperative is improving or deteriorating.

The *statement of activities* presents information showing how the Cooperative's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on page 8 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Cooperative is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Cooperative maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Cooperative. The general fund is a major fund for financial reporting purpose as defined by GASB Statement No. 34.

The Cooperative adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 8-12 of this report.

The Cooperative does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Cooperative's financial statements. The notes to the financial statements can be found on pages 13 through 20 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The following tables reflect a comparative analysis of government-wide data.

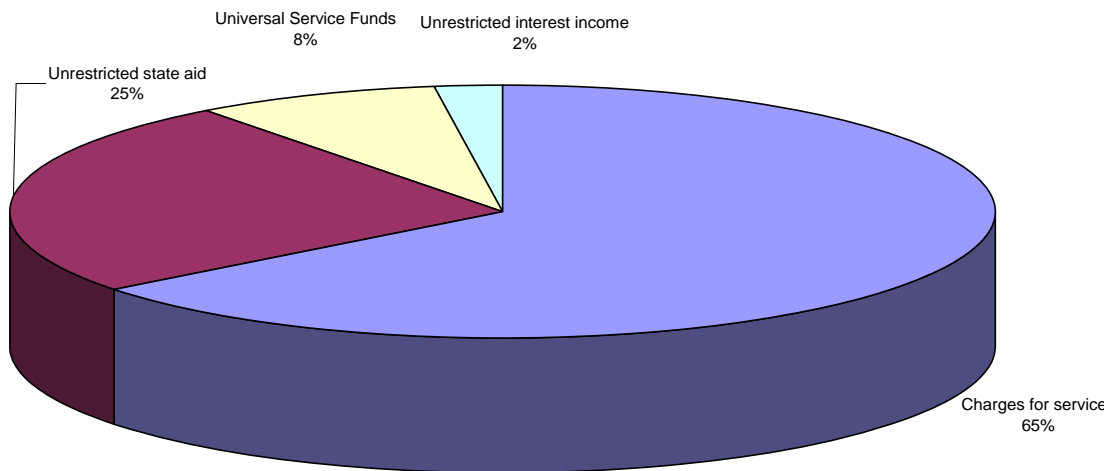
Lakeland Library Cooperative's Net Assets

	Governmental Activities	
	2007	2006
Assets		
Current and other assets	\$ 1,170,944	\$ 1,185,017
Capital assets, net	566,079	637,379
	<hr/>	<hr/>
Total assets	1,737,023	1,822,396
	<hr/>	<hr/>
Liabilities		
Current liabilities	79,407	102,535
Long-term liabilities outstanding	58,823	56,386
	<hr/>	<hr/>
	138,230	158,921
	<hr/>	<hr/>
Net assets		
Invested in capital assets	566,079	637,379
Unrestricted	1,032,714	1,026,096
	<hr/>	<hr/>
Total net assets	\$ 1,598,793	\$ 1,663,475
	<hr/>	<hr/>

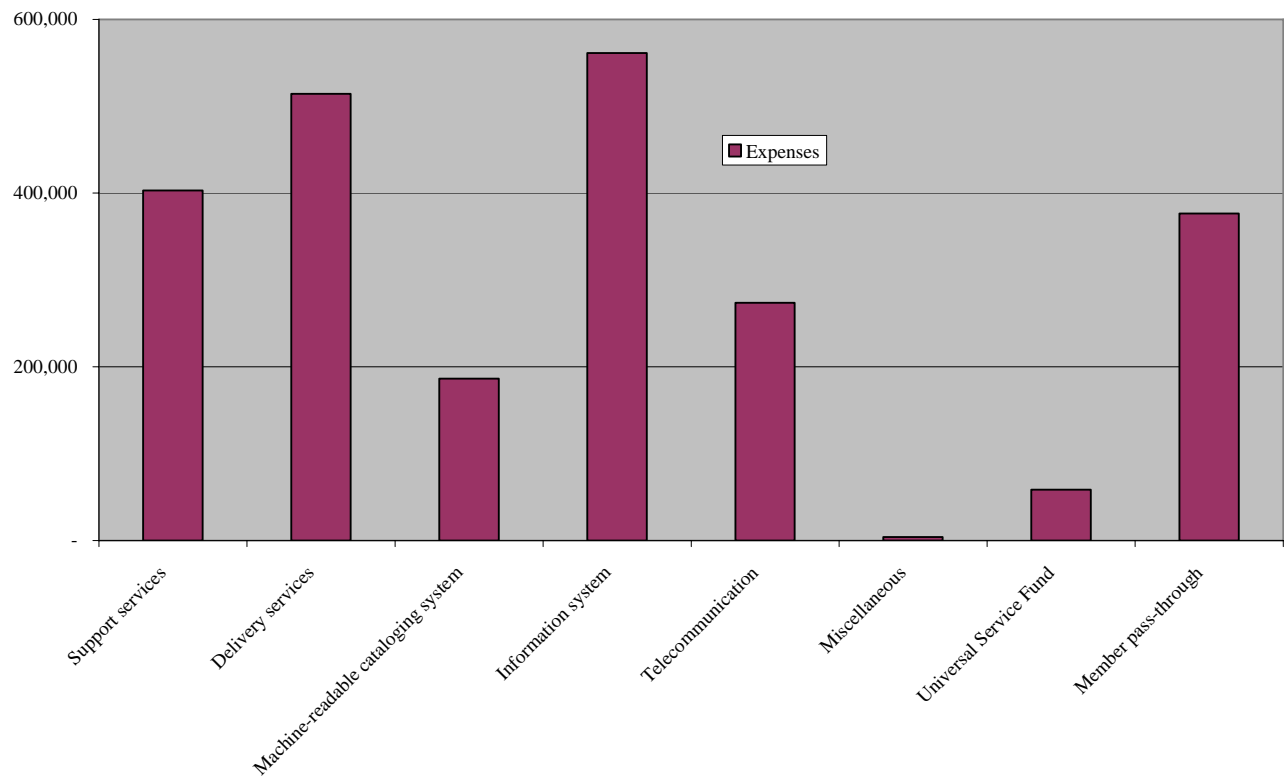
Lakeland Library Cooperative's Changes in Net Assets

	Governmental Activities	
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 1,241,051	\$ 1,362,631
Charges for services - member pass-through	385,823	-
General revenues:		
Unrestricted state aid	486,708	534,481
Universal Service Funds	158,897	167,669
Unrestricted investment earnings	40,335	31,675
Total revenues	2,312,814	2,096,456
	<hr/>	<hr/>
Expenses		
Support services	402,942	392,287
Delivery services	514,334	482,823
Interloan services	-	524
Machine-readable cataloging system	186,282	182,142
Information system	561,087	660,424
Telecommunication	273,748	301,082
E-mail	-	1,414
Miscellaneous	3,987	5,733
Universal Service Fund	58,675	39,941
Member pass-through	376,441	-
GRAULS	-	944
Total expenses	2,377,496	2,067,314
	<hr/>	<hr/>
Change in net assets	(64,682)	29,142
Net assets, beginning of year	1,663,475	1,634,333
	<hr/>	<hr/>
Net assets, end of year	\$ 1,598,793	\$ 1,663,475
	<hr/>	<hr/>

Revenues by Sources - Governmental Activities



Expenses - Governmental Activities



Financial Analysis of the Government's Funds

As of the end of the current fiscal year the fund balance of \$1,091,537 for the general fund reflects an increase of \$9,055 from the previous year.

Significant changes from the original budget to the amended budget were as follows:

1. USF funds were not included in the budget since the funds are just being held for the libraries. The money actually belongs to the libraries not the Cooperative. The only USF funds received by the Cooperative are for the dataline coming into the HQ building and for local and long distant telephone charges.
2. We cannot budget for Member Pass-through revenue/expense because it is an undetermined amount that varies from year to year. Starting fiscal year 2008, we will record member pass through transactions on the balance sheet instead of the profit and loss statement. The balance for these accounts should zero out at the end of the year.
3. The increase in the information system expenditures was from the purchase of software for the integrated library system, e.g., Ecommerce software and network upgrade equipment.

There were no significant variances between the amended budget and actual results.

Capital Assets and Debt Administration

Capital Assets

Major capital asset purchases during the current fiscal year included the following:

- Computers and related hardware
- Interlibrary loan software improvements and upgrades

Lakeland Library Cooperative's Capital Assets (net of depreciation)

	<u>2007</u>	<u>2006</u>
Land	\$ 76,518	\$ 76,518
Office furniture	17,253	29,187
Building	183,641	191,293
Building improvements	44,489	51,688
Training center furniture and equipment	1,288	5,679
Information system	<u>242,890</u>	<u>283,014</u>
	<u>\$ 566,079</u>	<u>\$ 637,379</u>

Additional information on the Cooperative's capital assets can be found in Note 4 on page 17 of this report.

Long-term debt

Lakeland Library Cooperative's Outstanding Debt

	<u>2007</u>	<u>2006</u>
Compensated absences	<u>\$58,823</u>	<u>\$56,386</u>

Additional information on the Cooperative's long-term debt can be found in Note 6 on page 18 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Cooperative's budget for the 2007-2008 fiscal year:

- Legislative action reduced the amount of state funding by 18%
- Budgeted reduction of network improvements funds of \$3,600 and of undesignated funds of \$77,420

Requests for Information

This financial report is designed to provide a general overview of Cooperative's finances for all those with an interest in the Cooperative's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Lakeland Library Cooperative, 4138 3 Mile Road NW, Grand Rapids, Michigan 49534-1134.

BASIC FINANCIAL STATEMENTS

LAKELAND LIBRARY COOPERATIVE
Statement of Net Assets and General Fund Balance Sheet
September 30, 2007

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and investments	\$ 1,148,754	\$ -	\$ 1,148,754
Fees and services receivable	4,038	-	4,038
Accrued interest receivable	8,087	-	8,087
Prepaid items	10,065	-	10,065
Capital assets not being depreciated	-	76,518	76,518
Capital assets being depreciated, net	-	489,561	489,561
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,170,944</u>	<u>566,079</u>	<u>1,737,023</u>
Liabilities			
Accounts payable	\$ 40,595	-	40,595
Accrued liabilities	38,812	-	38,812
Long-term liabilities:			
Due within one year	-	41,266	41,266
Due after one year	-	17,557	17,557
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>79,407</u>	<u>58,823</u>	<u>138,230</u>
Fund balance			
Reserved for prepaid items	10,065	(10,065)	-
Unreserved:			
Designated for budget stabilization	250,000	(250,000)	-
Designated for member USF funding	427,121	(427,121)	-
Designated for building improvements	50,000	(50,000)	-
Designated for network upgrades	7,000	(7,000)	-
Designated for GRAULS expenditures	4,602	(4,602)	-
Designated for capital replacements	140,596	(140,596)	-
Undesignated	202,153	(202,153)	-
	<hr/>	<hr/>	<hr/>
Total fund balance	<u>1,091,537</u>	<u>(1,091,537)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,170,944</u>		
Net assets			
Invested in capital assets		566,079	566,079
Unrestricted		1,032,714	1,032,714
		<hr/>	<hr/>
Total net assets		<u>\$ 1,598,793</u>	<u>\$ 1,598,793</u>

The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE
Reconciliation of Fund Balance on the Balance Sheet
for the General Fund to Net Assets of
Governmental Activities on the Statement of Net Assets
September 30, 2007

Fund balance - general fund	\$ 1,091,537
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	76,518
Add - capital assets being depreciated, net	489,561

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences	<u>(58,823)</u>
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Net assets of governmental activities	<u><u>\$ 1,598,793</u></u>
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The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE

Statement of Activities and General Fund Revenues,

Expenditures and Changes in Fund Balance

For the Year Ended September 30, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
General operating:			
Support services	\$ 380,055	\$ 22,887	\$ 402,942
Delivery service	514,334	-	514,334
Machine-readable cataloging system	186,282	-	186,282
Information system	510,237	50,850	561,087
Telecommunications	273,748	-	273,748
Miscellaneous	3,987	-	3,987
Universal Service Fund	58,675	-	58,675
Member pass-through	376,441	-	376,441
	<u>2,303,759</u>	<u>73,737</u>	<u>2,377,496</u>
Program revenues			
Charges for services	1,241,051	-	1,241,051
Charges for services - member pass-through	385,823	-	385,823
	<u>1,626,874</u>	<u>-</u>	<u>1,626,874</u>
Net program expenses			<u>(750,622)</u>
General revenues			
Unrestricted State aid	486,708	-	486,708
Universal Service Fund	158,897	-	158,897
Unrestricted interest income	40,335	-	40,335
	<u>685,940</u>	<u>-</u>	<u>685,940</u>
Net change in fund balance/net assets	9,055	(73,737)	(64,682)
Fund balance/net assets			
Beginning of year	1,082,482	580,993	1,663,475
End of year	<u>\$ 1,091,537</u>	<u>\$ 507,256</u>	<u>\$ 1,598,793</u>

The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of the General Fund
to the Statement of Activities
For the Year Ended September 30, 2007

Net change in fund balance - general fund	\$ 9,055
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	103,890
Deduct - depreciation expense	(175,190)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in the accrual for compensated absences	<u>(2,437)</u>
Change in net assets of governmental activities	<u><u>\$ (64,682)</u></u>

The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE

General Fund

Statement of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual

For the Year Ended September 30, 2007

	Budget Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget
Revenue				
Charges for services:				
General operating	\$ 161,992	\$ 163,282	\$ 160,451	\$ (2,831)
Machine-readable cataloging system	234,450	234,450	234,490	40
Information systems	538,113	546,433	558,944	12,511
Telecommunications	279,036	279,036	282,492	3,456
E-mail	6,380	6,380	-	(6,380)
Miscellaneous programs	5,000	5,000	4,540	(460)
Member pass-through	-	376,383	385,823	9,440
State aid	479,576	488,666	486,708	(1,958)
Universal Service Fund	-	157,774	158,897	1,123
GRAULS	-	97	134	37
Interest	34,000	34,000	40,335	6,335
Total revenue	1,738,547	2,291,501	2,312,814	21,313
Expenditures				
General operating:				
Support services	407,421	407,421	380,055	27,366
Delivery service	521,603	521,603	514,334	7,269
Machine-readable cataloging system	191,746	191,746	186,282	5,464
Information systems	445,317	535,471	510,237	25,234
Telecommunications	271,609	271,609	273,748	(2,139)
Miscellaneous	5,000	3,987	3,987	-
Universal Service Fund	-	55,591	58,675	(3,084)
Member pass-through	-	376,300	376,441	(141)
Total expenditures	1,842,696	2,363,728	2,303,759	59,969
Net change in fund balance	(104,149)	(72,227)	9,055	81,282
Fund balance				
Beginning of year	1,082,482	1,082,482	1,082,482	-
End of year	\$ 978,333	\$ 1,010,255	\$ 1,091,537	\$ 81,282

The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lakeland Library Cooperative (the “Cooperative”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Lakeland Library Cooperative (the “Cooperative”) was formed by the authority of Public Libraries Act 89 of 1977. The Cooperative provides interlibrary loan, reference and other services to member libraries in Allegan, Barry, Ionia, Kent, Montcalm, Muskegon, Newaygo and Ottawa counties. For the year ended September 30, 2007, 21% of the Cooperative’s revenue was received from the State of Michigan.

The Reporting Entity

The Cooperative Library Board, a nine-member group appointed in accordance with a formula stated in Article V, Section I of the Cooperative bylaws, has governance responsibilities over all activities related to the Lakeland Library Cooperative. The Board receives funding from local, state and federal government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental “reporting entity” as defined by the Government Accounting Standards Board since the Board members, who are appointed (as legislated by Public Libraries Act 89 of 1977) from Cooperative members, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LAKELAND LIBRARY COOPERATIVE

Notes to Financial Statements

Governmental fund (general fund) financial statements (general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for the financial resources of the Cooperative.

Budgetary Data

The annual budget is prepared by the Cooperative's management and adopted by the Cooperative Board; subsequent amendments are approved by the Cooperative Board. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenue, expenditures and changes in fund balances – budget and actual – general fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Cooperative Board is included in the financial statements.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Cooperative as assets with an initial, individual cost of more than \$500 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

LAKELAND LIBRARY COOPERATIVE

Notes to Financial Statements

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (general fund balance sheet and statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

Depreciation is recorded over the following estimated useful lives of the assets, using the straight-line method:

	<u>Years</u>
Office furniture	3-15
Building	30
Building improvements	5-20
Vehicles	5
Training center furniture and equipment	3
Information system	3-5

Accrued Vacation and Sick Leave

Under terms of the Cooperative policies, full time employees are granted 12 days of sick leave per year. Resigning employees shall be paid \$.50 per day for accumulated sick leave multiplied by the years of service, if greater than 10. Retirees are paid \$1.00 per day for accumulated sick leave multiplied by the years of service, if greater than 10. Vacation time is paid at the hourly rate of the employee.

Deferred Compensation Plan

The Cooperative offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Cooperative employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Cooperative's financial statements.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended September 30, 2007 the Cooperative incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Telecommunication	\$ 271,609	\$ 273,748	\$ 2,139
Universal Service Fund	55,591	58,675	3,084
Member pass-through	376,300	376,441	141

LAKELAND LIBRARY COOPERATIVE

Notes to Financial Statements

3. CASH DEPOSITS AND INVESTMENTS

Deposits and Investments

Cash and investments are comprised of the following at year-end:

Checking and savings accounts	\$ 848,754
Certificates of deposits (due within one year)	<u>300,000</u>
	<u>\$ 1,148,754</u>

These deposits are in one (1) financial institution located in Michigan. State policy limits the Cooperative's investing options to financial institutions located in Michigan. All accounts are in the name of the Cooperative. They are recorded in Cooperative's records at fair value.

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Cooperative deposits may not be returned. State law does not require and the Cooperative does not have a policy for deposit custodial credit risk. As of year-end, \$974,814 of the Cooperative's bank balance of \$1,174,814 was exposed to credit risk because it was uninsured and uncollateralized.

The Cooperative believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Cooperative evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan law authorizes the Cooperative to deposit and invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

LAKELAND LIBRARY COOPERATIVE
Notes to Financial Statements

4. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance October 1, 2006	Additions	Deductions	Balance September 30, 2007
Capital assets not being depreciated				
Land	\$ 76,518	\$ -	\$ -	\$ 76,518
Capital assets being depreciated				
Office furniture	152,162	-	-	152,162
Building	229,553	-	-	229,553
Building improvements	89,745	-	-	89,745
Vehicles	50,756	-	-	50,756
Training center furniture and equipment	37,151	-	-	37,151
Information system	749,017	103,890	-	852,907
Total capital assets being depreciated	1,308,384	103,890	-	1,412,274
Accumulated depreciation				
Office furniture	122,975	11,934	-	134,909
Building	38,260	7,652	-	45,912
Building improvements	38,057	7,199	-	45,256
Vehicles	50,756	-	-	50,756
Training center furniture and equipment	31,472	4,391	-	35,863
Information system	466,003	144,014	-	610,017
Total accumulated depreciation	747,523	175,190	-	922,713
Total capital assets being depreciated, net	560,861	(71,300)	-	489,561
Net capital assets	\$ 637,379	\$ (71,300)	\$ -	\$ 566,079

Depreciation expense is allocated between the various functions of the Cooperative as follows:

General support	\$ 20,450
Information systems	154,740
	<u>\$ 175,190</u>

LAKELAND LIBRARY COOPERATIVE

Notes to Financial Statements

5. LEASES

The Cooperative conducts a portion of its operations with leased vehicles and office equipment. Net rental expense on these leases was \$52,498 for the year ended September 30, 2007. These leases expire through 2010.

The following is a schedule of annual future minimum lease expenses required on leases with remaining non-cancelable lease terms in excess of one year as of September 30, 2007:

2008	\$ 65,774
2009	12,553
2010	<u>2,625</u>
	<u><u>\$80,952</u></u>

6. LONG-TERM LIABILITIES

Long-term liabilities of the Cooperative consist of the following:

	<u>Balance October 1, 2006</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 56,386</u>	<u>\$ 42,501</u>	<u>\$ (40,064)</u>	<u>\$ 58,823</u>	<u>\$ 41,266</u>

7. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Cooperative has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage during the past year.

8. RETIREMENT PLANS

City of Grand Rapids General Retirement System

Plan Description

The Cooperative contributes to the City of Grand Rapids General Retirement System ("City Retirement System"), which is the administrator of a single-employer, trustee defined benefit plan. This plan covers all of the Cooperative's employees who became eligible prior to October 1, 1989. The Cooperative participates under a cost-sharing arrangement with the City. The City Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 233 E. Fulton, Suite 216, Grand Rapids, MI 49503.

LAKELAND LIBRARY COOPERATIVE

Notes to Financial Statements

Funding Policy

The funding policy for periodic employer contributions are at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay benefits when due

Contributions

The employer contribution rate totals 16.41 percent for the period October 1, 2006 through June 30, 2007 and 11.86 percent for the period July 1, 2007 to September 30, 2007.

Covered employees contribute 4 percent of eligible wages. The Cooperative's required and actual contributions to the City Retirement System plan for the years ended September 30, 2007, 2006, and 2005, were \$4,623, \$4,725, and \$4,615, respectively.

Cooperative Defined Contribution Plan

Plan Description

The Cooperative participates in a defined contribution pension plan established by the Cooperative to provide benefits at retirement to the Cooperative Director. At September 30, 2007 there was one member in the Plan. Plan members are not required to contribute. The Cooperative is required to contribute 7% of annual covered payroll. Employer contributions for the year totaled \$3,911. Plan provisions and contribution requirements are established and may be amended by the Cooperative.

Municipal Employees Retirement System of Michigan

Plan Description

The Cooperative participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering certain Cooperative employees. The System is administered by the MERS retirement board.

Act No. 220 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Plan Contributions

The Cooperative is required to contribute at an actuarially determined rate of 5.55% of covered payroll; the current year amount was \$21,765. Participating employees are required to contribute 4% of covered payroll to the plan. The contribution requirements of the Cooperative are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Cooperative and depending on the MERS contribution program adopted by the Cooperative.

LAKELAND LIBRARY COOPERATIVE

Notes to Financial Statements

For the year ended September 30, 2007, the Cooperative's annual pension cost of \$21,765 for MERS was equal to the Cooperative's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Cooperative's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 20,763	100%	\$ -
2005	20,616	100%	-
2006	21,765	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>(Overfunded) Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2004	\$ 492,643	\$ 477,071	\$ (15,572)	103%	\$ 429,141	(4)%
12/31/2005	562,929	580,489	17,560	97%	422,073	4%
12/31/2006	636,798	677,222	40,424	94%	441,097	9%

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January 26, 2007

To the Board of Directors of the
Lakeland Library Cooperative
Grand Rapids, Michigan

We have audited the financial statements of the Lakeland Library Cooperative for the year ended September 30, 2007, and have issued our report thereon dated January 26, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 2, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Lakeland Library Cooperative. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Lakeland Library Cooperative are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Lakeland Library Cooperative during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Lakeland Library Cooperative's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Lakeland Library Cooperative, either individually or in the aggregate, indicate matters that could have a significant effect on the Lakeland Library Cooperative's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Lakeland Library Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

Lakeland Library Cooperative

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of the Lakeland Library Cooperative as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Significant Deficiencies

Preparation of Governmental Financial Statements

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition/Finding: As is the case with many smaller and medium-sized entities, the Cooperative has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Cooperative's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Cooperative's internal controls.

Lakeland Library Cooperative
Comments and Recommendations
For the Year Ended September 30, 2007

Cause: This condition was caused by the Cooperative's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Cooperative to perform this task internally.

Effect: As a result of this condition, the Cooperative lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Cooperative has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Segregation of Incompatible Duties

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Cooperative. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition/Finding: The Cooperative has several accounting functions that are performed by the same individual and are not subject to independent review and approval, including 1) handling cash receipts/disbursements and completing the bank deposits/reconciliations, 2) creating journal entries and posting them to the general ledger, and 3) managing investments and reconciling the related investment accounts to the general ledger.

Cause: This condition is a result of limited resources (i.e., the Cooperative has a small number of available staff to perform accounting functions).

Effect: As a result of this condition, the Cooperative is exposed to increased risk that misstatements or misappropriations may occur and not be detected by management on a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: For fiscal year 2008, the director or acting director will be managing investments and the bookkeeper will be reconciling the related investment accounts to the general ledger. However, due to the size of the Cooperative, the bookkeeper will keep performing the other accounting functions as mentioned above.

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